



Minister's Order

Combined SaskEnergy Natural Gas Commodity Rate Change, Natural Gas Delivery Service Rate Change and Interim Commodity Rate Adjustment Proposal

Terms of Reference

WHEREAS by an Order dated December 16, 2015, issued pursuant to Section 15 of *The Executive Government Administration Act*, the Minister of Crown Investments appointed a Ministerial Advisory Committee known as the Saskatchewan Rate Review Panel;

AND WHEREAS that Order provides for specific terms of reference for particular Crown Corporation rate change reviews to be attached by further Minister's Order;

AND WHEREAS it is desirable to establish terms of reference for a SaskEnergy Commodity and Delivery rate change review and to attach the terms of reference to the previously mentioned Minister's Order;

NOW THEREFORE, I hereby amend the said Minister's Order by attaching Appendix A affixed hereto as "**Schedule E: Combined SaskEnergy Natural Gas Commodity Rate Change, Natural Gas Delivery Service Rate Change, Interim Commodity Rate Adjustment Proposal and Terms of Reference**" to the said Minister's Order.

Dated at Regina, Saskatchewan this 25 day of September, 2018



Minister of Crown Investments

**Schedule E:
Combined SaskEnergy Natural Gas Commodity Rate Change and Natural Gas Delivery
Service Rate Change Proposal**

Terms of Reference

The Saskatchewan Rate Review Panel (the Panel) is requested to conduct a combined review of SaskEnergy's request for a decrease to its natural gas commodity rates, an increase in its delivery service rate and an interim commodity rate.

- A Commodity Rate decrease effective April 1, 2019.
- A Delivery Service Rate increase to the Delivery Charge component of its Delivery Service Rates in each customer class effective April 1, 2019, and
- Comment on an interim Commodity Rate effective November 1, 2018.

The Panel shall function within its mandate and operational terms of reference as specified in the Minister's Order dated December 16, 2015. The Panel shall provide an opinion of the fairness and reasonableness of SaskEnergy's proposed commodity and delivery rate change having consideration for the following:

- The interests of the Crown corporation, its customers and the public;
- Consistency with the Crown corporation's mandate, objectives and methodologies;
- Relevant industry practices and principles; and
- The effect of the proposed delivery rate change on the competitiveness of the Crown corporation related to other jurisdictions.

COMMODITY RATE REVIEW

In conducting its **Commodity Rate Review**, the Panel will consider the following factors:

- A) The reasonableness of the proposed changes to the commodity rate in the context of:
 - (i) SaskEnergy's anticipated cost of gas for the effective term including;
 - (ii) The gas purchase contracts entered into by SaskEnergy for the supply of gas; and
 - (iii) The natural gas commodity market conditions at the time of SaskEnergy's contractual commitments.
- B) The impact changing market prices will have on SaskEnergy's proposed commodity rate.
- C) The Panel shall check to ensure that SaskEnergy's natural gas price management strategy is executed as approved by the SaskEnergy Board of Directors, and its practices are aligned with the SaskEnergy Board of Directors approved policy and procedures for engaging in gas price management activities.
- D) In conducting its review, the Panel shall consider the following as given:
 - (i) The principle that SaskEnergy passes on the cost of gas to consumers without discount or mark-up.

The Panel must include in its report an explanation of how, in its opinion, implementation of the Panel's rate recommendations will allow SaskEnergy to achieve the performance inherent in the

principle outlined in section (D), where the Panel's recommendations differ from SaskEnergy's proposed commodity rate change.

DELIVERY RATE REVIEW

In conducting its **Delivery Rate Review**, the Panel will consider the following factors:

- A) The reasonableness of the proposed changes to the rates in the context of SaskEnergy's forecasted delivery cost of service, comprised of:
 - (i) load forecast;
 - (ii) contracted transportation and storage service;
 - (iii) planned maintenance program;
 - (iv) operating, maintenance and administrative expenses;
 - (v) depreciation expense; and,
 - (vi) corporate capital tax.

- B) The revenue requirement resulting from the delivery cost of service.

- C) The Panel shall consider the following parameters as given:
 - (i) the rate structure (i.e. components and classifications);
 - (ii) the budgeted capital allocation, the rate base, and established corporate policies;
 - (iii) the long-term target rate of return on equity of 8.3%, as approved in the 2018-2019 business plan, using industry based rate setting methodology and excluding customer contributions for the distribution utility;
 - (iv) the existing service levels;
 - (v) the revenue-to-cost ratio target range of 0.95 to 1.05;
 - (vi) the methodology used to allocate the costs between rate classes; and,
 - (vii) all transportation and storage rates, including those set by TransGas Limited.

SaskEnergy will provide the Panel with its application package immediately. SaskEnergy will also provide the Panel with any supplementary information as the Panel may require to fulfill its mandate and these Terms of Reference.

The Panel shall determine a public consultation process for this rate change application appropriate and cost effective under the circumstances and within the timeline for the review as established by the Minister of Crown Investments.

The Panel shall provide members of the public with the opportunity to review and comment on SaskEnergy's delivery rate change submission outside any public meeting, to the extent reasonable and within the timeline for the review assigned by the Minister of Crown Investments.

The Panel shall provide an opportunity to SaskEnergy to make a presentation to it and to the public as they consider appropriate to discuss noteworthy rate application issues.

Questions from the public, the Panel members and its technical consultant(s) that require a response from SaskEnergy shall be received and organized by the Panel in a timely and efficient manner and forwarded to SaskEnergy for response.

The Panel shall provide SaskEnergy with the opportunity and reasonable time to review the Panel's technical consultant's preliminary report prior to its finalization to ensure there are no errors in data or in the interpretation of data. The preliminary report shall include the consultant's observations (e.g. outstanding issues and questions), but will not include the consultant's recommendations to the Panel.

The Panel must include in its report an explanation of how, in its opinion, implementation of the Panel's rate recommendations will allow SaskEnergy to achieve the performance inherent in the parameters outlined in section (C), where the Panel's recommendations differ from SaskEnergy's proposed delivery rate change.

CONFIDENTIALLY

Consistent with the "Confidentiality Guidelines" for the Panel (January 19, 2010), the Panel will not publicly release or require SaskEnergy to publicly release confidential information supplied by the Crown corporation to the Panel during the course of the combined rate change application review.

The Panel will release, as part of its final report, the results of the review of SaskEnergy's delivery rate change request as conducted by an independent third party. By doing so the Panel shall ensure there has been no indirect release of any of SaskEnergy's confidential information.

CONDUCT OF THE REVIEW

The Panel will present its report to the Minister of Crown Investments no later than February 4, 2019.